

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06 CIEP-02

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /113 W

----- 014441

R 272248Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9744

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 04835

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 27

BEGIN SUMMARY: THE BUDGET WILL BE APRIL 15. THE PRESSURES
ARE BUILDING ON CHANCELLOR HEALEY FOR REFLATION AS THE
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TUC PRESENTED ITS REQUEST FOR AN EXPANSIONARY BUDGET

LINKED WITH IMPORT CONTROLS. BUT HEALEY STATED PUBLICLY AGAIN THAT WAGE MODERATION IS NECESSARY BEFORE REFLATION CAN BE TAKEN. THE WEAKENING TREND FOR DEMAND AND OUTPUT CONTINUED, AND FOURTH QUARTER 1974 FIGURES SHOW A GDP DECLINE. MONETARY GROWTH IS SLOW, THOUGH THERE IS LARGE PUBLIC SECTOR BORROWING, MUCH OF WHICH HAS COME FROM THE NONBANK PUBLIC BY SALE OF GILTS. BANK LENDING TO THE PRIVATE SECTOR IS STAGNANT, AND INTEREST RATES ARE FALLING. UNEMPLOYMENT IS INCREASING AS IS SHORT-TIME WORKING, AND THERE IS SOME LOCAL AND INTERNATIONAL OPINION (THE OECD) THAT IT WILL RISE MORE QUICKLY THROUGH THE REST OF 1975. HOWEVER, PRICES SHOW LITTLE SIGN OF ABATEMENT OF THEIR RAPID RISE; WAGES CONTINUE TO BE THE MAJOR SOURCE BUT NATIONALIZED INDUSTRY PRICES ARE ALSO RISING AND WILL CONTRIBUTE TO THE PUSH. STERLING WEAKENED SLIGHTLY AGAINST THE DOLLAR OVER THE WEEK TO WEDNESDAY, MARCH 26.

THE FORWARD DISCOUNT REMAINED AT ABOUT THE SAME LEVEL AFTER SOME UPWARD FLUCTUATION AND EURODOLLAR RATES ROSE SLIGHTLY. THE GOLD PRICE INCREASED BY \$0.50. END SUMMARY

1. OUTPUT. THE GDP INDEX FOR THE FOURTH QUARTER OF 1974 INDICATES A DROP IN DOMESTIC PRODUCT OVER THE THIRD QUARTER OF ABOUT ONE PERCENT, USING THE AVERAGE ESTIMATE WHICH COMBINES ESTIMATES BASED ON EXPENDITURE, INCOME, AND OUTPUT DATA. IN COMPARISON WITH THE FOURTH QUARTER OF 1973, THE GDP INDEX SHOWS A RISE OF 0.9 PERCENT. THE FIGURES ARE: 1974: IV 106.2; 1974: III 107.3; 1973: IV 105.3; (1970 EQUALS 100).

2. MONEY SUPPLY. SLOW GROWTH OF MONETARY AGGREGATES CONTINUED AS THE NARROWLY DEFINED MONEY SUPPLY (M1) FELL BY 1.1 PERCENT IN THE PERIOD JANUARY 16 TO FEBRUARY 19 WHILE THE BROADLY DEFINED MONEY SUPPLY (M3) ROSE BY ONLY 0.9 PERCENT. M1 GROWTH HAD RISEN SUBSTANTIALLY IN THE PREVIOUS PERIOD. AT AN ANNUAL RATE M1 HAS GROWN AT 18 PERCENT OVER THE PAST THREE MONTHS, LESS THAN THE INFLATION RATE. M3 HAS RISEN BY 2 PERCENT IN THE PAST THREE MONTHS, AN ANNUAL RATE OF 8 PERCENT. BANK LENDING IS UNCLASSIFIED

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SLACK AND THE PUBLIC SECTOR DEFICIT HAS BEEN FINANCED MAINLY THROUGH SALES OF GOVERNMENT SECURITIES (GILTS) LATELY.

3. PRICES. DOMESTIC ELECTRICITY PRICES WILL RISE BY AN AVERAGE OF 28-1/2 PERCENT IN ORDER THAT THE INDUSTRY (A NATIONALIZED INDUSTRY) MAY COME CLOSE TO BREAKING EVEN AND GOVERNMENT PRICE SUBSIDIES MAY BE PHASED OUT.

4. INTEREST RATES: BARCLAYS BANK CUT ITS BASE INTEREST RATE TO 10-1/4 PERCENT FROM 10-3/4 PERCENT. OTHER BANKS ARE EXPECTED TO FOLLOW THIS MOVE. BARCLAYS ALSO CUT ITS DEPOSIT RATES AND WIDENED THE DIFFERENTIAL BETWEEN BORROWING AND LENDING RATES.

5. ENERGY. DEMAND FOR OIL PRODUCTS APPEARS TO BE DECLINING AS DELIVERIES OF OIL PRODUCTS FELL BY 8.7 MILLION TONS (4 PERCENT) IN JANUARY OVER JANUARY 1974. IN JANUARY 1974 AN ALLOCATION SYSTEM WAS IN FORCE WHICH REDUCED OIL CONSUMPTION SUBSTANTIALLY. DEMAND FOR COAL SEEMS TO BE RISING AS WELL AS PRODUCTIVITY IN THE MINES.

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PASS TREAS & FRB

6. HOUSING. NEW CONSTRUCTION ORDERS, IN VALUE TERMS,
FELL SHARPLY IN JANUARY.

7. FRIDAY AND MONDAY ARE HOLIDAYS IN THE U.K.; THE MAR-
KET (AND EVERYTHING ELSE) IS CLOSED.

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3/20 3/26 CHANGE

8. FOREIGN EXCHANGE AND GOLD

EXCHANGE RATE 2.4240 2.4130 DOWN 0.0110

EFFECTIVE DEPRECIATION

(PERCENT) 21.3 21.1 DOWN 0.2

GOLD 177.00 177.50 UP 0.50

9. FORWARD DISCOUNT ON STERLING

1 MONTH 0.90 0.95 UP 0.05

3 MONTHS 3.10 3.07 DOWN 0.03

6 MONTHS 6.10 6.05 DOWN 0.05

10. EURODOLLAR INTEREST RATES

1 MONTH 6-1/4 6-5/8 UP 3/8

3 MONTHS 6-7/8 7-3/8 UP 1/2

6 MONTHS 7-1/2 7-7/8 UP 3/8

11. LOCAL AUTHORITY DEPOSIT RATES

1 MONTH 10-1/4 10-1/4 NO CHANGE

3 MONTHS 10-1/2 10-1/2 NO CHANGE

6 MONTHS 10-5/8 10-3/4 UP 1/8

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10
PERCENT.

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05 JUL 2006

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